



Key News

- [Stocks Cheapest Since '89 Show Why Analysts Say Economists Wrong on Growth](#) (Bloomberg)
Profits for companies in the S&P 500 will rise 25 percent next year, according to the average estimate of more than 1,500 equity analysts tracked by Bloomberg. That's 10.9 times faster than the expansion in gross domestic product foreseen by 53 economists surveyed last month. The ratio of income to GDP growth is the highest on record and compares with an average of 6.1, based on data compiled by Bloomberg going back 60 years.
- [Putin Blinking on Increased Exports Signals Oil Weakness as OPEC Convenes](#) (Bloomberg)
- [How China Cooks Its Books](#) (Foreign Policy)
For the long term, China is banking on its main export markets -- in the United States, Europe, and Japan -- recovering and starting to consume again. The hope is that in the meantime, rosy economic figures will placate the masses and stop unrest. But, if the rest of the world does not rebound, China risks the bursting of asset bubbles in property and stocks, declining domestic consumption, and rising unemployment.

Quotable

"For, he that expects nothing shall not be disappointed, but he that expects much - if he lives and uses that in hand day by day - shall be full to running over."

Edgar Cayce

FX Trading – Capitulation Questions and Reader Mailbag

In an [article by Wolfgang Munchau appearing on Eurointelligence.com](#), the case is made that Europe (particularly the Eurozone) will experience a withering pace of growth during the recovery phase of this global economic crisis.

Besides all the reasons given for why Europe will flop around like a fish on dry land, this point was made:

"Both the US and Europe will go through an adjustment period, during which growth will be lower. The US will be first to recover: it is a more dynamic economy, has a more coherent framework for macroeconomic policy, and, unlike the EU, has a genuine internal market which is not unraveling."

It is a point we've made several times, and it is one that's been touched on by several analysts over the last year. But interestingly enough it's gone mostly ignored by investors.

Today the US dollar has broken to fresh daily and weekly lows. Leading the charge against the buck is the euro. Despite the longer-term trudge that's shaping up for the Eurozone economy and recent pieces of negative monthly data like today's report on [falling industrial production in Germany](#), the euro is taking off like a rocket:



Most notable in the above chart is that the euro has broken out to new highs versus the buck. For a good amount of time the euro had been tracking sideways after a failed breakout attempt in late July. In that time we watched US stocks (risk appetite) push to new highs. Now it's the euro's turn.

Are we witnessing capitulation here? Could we see a blow-off move against the buck? Or is this just one step in an uptrend that could take the euro much higher from here?

As one of the above stories in the Key News section points out, analysts and investors are diverging from economists, i.e. risk appetite remains strong despite sour fundamentals. That seems to be the case with the euro – currency traders are buying ... with their eyes turned away from the Eurozone's economic blemishes.

It's about herd-mentality, I guess; it's about group-think, I guess. So if you're trading these markets right now, this is what it's got to be about ... because it sure isn't about fundamentals.

Besides the euro making some noise, everyone's favorite yellow metal has somewhat quietly catapulted itself back up over the \$1,000 an ounce mark.

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Can we explain why the notorious inflation-asset-of-choice is making hay in a deflationary environment? Not exactly, but one reader chimed in with some comments:

READER MAILBAG

In response to our comments regarding whether gold is a safe haven move in what seems to be a deflationary world (*Currency Currents* last Friday), or whether gold is telling us inflation is dead ahead thanks to all the money our government has pumped into the system, one of our readers sent us this comment:

“It continues to be a mystery as to why central bankers are always looking to yesterday's battles, in this case inflation. Deflation seems to prevail, despite all the printing of money, because the amount of debt to be deleveraged is awesome! Gold seems poised for a break-out because it is viewed by many as an alternative to all fiat currencies. Simply put, gold is viewed as money. Gold does not need inflation to prosper. It also prospers in deflationary times, as witnessed by the massive deflation of the Great Depression. Its ascent was only curbed in 1935 when FDR fixed the price of gold at \$35 and restricted its use to jewelry in an attempt to re-liquefy the banking system. The price restriction was lifted many years later under Nixon.”

Perhaps this is the reason for the herd trampling all over the buck – I wouldn't doubt it. The diminishing confidence in US fiscal policy takes center stage every day; deficits, deficits, deficits!

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